

governmental authority of Puerto Rico ceases to own or control, in the aggregate, at least 5% of our shares; and

- the later of (a) seven years or (b) one year after a sale of our shares by any governmental authority of Puerto Rico in a public offering of our shares on behalf of any of these entities.

79

&lt;PAGE&gt; 83

The parties, other than Popular, Inc., shall not engage in the activities described above until the earlier of (A) the date when the Puerto Rico Telephone Authority and any other governmental authority of Puerto Rico ceases to own or control, in the aggregate, at least 5% of our Shares and (B) the later of (x) seven years and (y) one year after a sale of shares by any governmental authority of Puerto Rico in a public offering of shares.

The non-competition agreement does not prohibit:

- the parties, other than Popular, Inc., from acquiring as an investment not more than 2%, in the aggregate, of the capital stock of a corporation engaged, directly or indirectly, in the activities restricted under the non-competition agreement, whose stock is traded on a national securities exchange or over-the-counter;
- some enumerated activities of GTE Corporation or its subsidiaries and divisions;
- activities of Governmental Authorities of Puerto Rico of the nature conducted on March 2, 1999, other than the provision of local telephone service or on-island or off-island long distance telecommunication service, which activities are ancillary to the primary function of these entities;
- ownership of shares of our company;
- the provision of services or technology to us pursuant to specified management or technology license agreements; or
- each party from exercising any of its rights or complying with any of its obligations under our shareholders agreement or the option agreement executed on March 2, 1999.

Under the non-competition agreement, for so long as Popular, Inc. owns more than 2% of our shares it must comply with the requirements of the Bank Holding Company Act of 1956 restricting the non-banking activities of bank holding companies. In any event, Popular, Inc. will not make an investment in the equity of any other company engaged in providing substantial telecommunications services in Puerto Rico, except for investments of not more than 2% of the equity of companies whose stock is traded on a national securities exchange or over-the-counter, or control the management of any other business with substantial telecommunications operations in Puerto Rico.

Other than their equity interest in our company, neither GTE Corporation nor Popular, Inc. have any substantial telecommunications activities in Puerto Rico.

80

&lt;PAGE&gt; 84

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

#### TRANSACTIONS WITH AFFILIATES OF GTE CORPORATION

PUERTO RICO MANAGEMENT AGREEMENT, U.S. MANAGEMENT AGREEMENT AND TECHNOLOGY LICENSE AGREEMENT

Telecomunicaciones de Puerto Rico, Puerto Rico Telephone Company and GTE International or one of its affiliates are parties to:

- an Amended and Restated Puerto Rico Management Agreement, under which an affiliate of GTE International Telecommunications Incorporated is responsible for providing, within Puerto Rico, advice and direction regarding the administration and operations of our business;
- an Amended and Restated U.S. Management Agreement, pursuant to which the responsibilities of GTE International are substantially identical to the ones of its affiliate under the Puerto Rico Management Agreement, except that all services are to be provided outside of Puerto Rico; and
- a separate, nonexclusive Amended and Restated Technology License Agreement, dated as of March 2, 1999.

Under the terms of the Technology License Agreement an affiliate of GTE International granted us an unrestricted right during the term of the agreement to use any of GTE International's technology that is not covered by patent or copyright protection or treated as confidential by GTE International. We were also granted a nonexclusive, irrevocable, nontransferable license to use within Puerto Rico any other technical or business information, inventions, software programs, trade secrets, know-how, and other technological or industrial property of GTE Corporation, supplied to us in the course of providing the services covered by the Puerto Rico Management Agreement and the U.S. Management Agreement.

#### Term

The Puerto Rico Management Agreement, the U.S. Management Agreement and the Technology License Agreement have an initial duration of five years. The parties shall commence bona-fide negotiations to extend the term of both agreements not less than six months before their expiration.

#### Fees

The combined total compensation under the Puerto Rico Management Agreement, the U.S. Management Agreement and the Technology License Agreement shall be equal to:

- 8% of our earnings before deducting interest expenses, taxes and depreciation allowance for each of years 1 and 2 of the agreements;
- 7% of our earnings before deducting interest expenses, taxes and depreciation allowance for each of years 3 and 4 of the agreements; and
- 6% of our earnings before deducting interest expenses, taxes and depreciation allowance for year 5 of the agreements.

Earnings before deducting interest expenses, taxes and depreciation allowance is defined for purposes of the Technology License Agreement as consolidated earnings before interest, taxes, depreciation, amortization and the fees paid under the Puerto Rico Management Agreement, the U.S. Management Agreement and the Technology License Agreement, calculated in accordance with generally accepted accounting principles in the United States consistently applied, except that EBITDA shall be increased by any non-recurring costs resulting from the implementation by the Company or its Subsidiaries of voluntary severance programs. GTE International is also entitled to reimbursement under the Puerto Rico Management Agreement and the U.S. Management Agreement for transportation expenses and meals and lodging expenses incurred by its personnel in performing their obligations thereunder. The cash payment of

the fees and royalty will be deferred, with interest, until at least March 2, 2000.

81

&lt;PAGE&gt; 85

#### AFFILIATE AGREEMENTS NOT COVERED UNDER THE TECHNOLOGY LICENSE AND MANAGEMENT AGREEMENTS

##### Directory Agreement

GTE Directories Corporation, an affiliate of GTE Corporation, has entered into an advisory agreement with AXESA, pursuant to which GTE Directories Corporation expects to receive approximately \$2 million in revenues from the publication of directories for the year 2000.

##### Proposed Reimbursement Agreement with GTE Corporation Affiliates

We have agreed to reimburse GTE Corporation and its affiliates for the salaries and benefits paid by them to employees which are seconded to us. The initial term of the agreement will expire on March 2, 2004

#### TRANSACTIONS WITH AFFILIATES OF POPULAR, INC.

Banco Popular has provided and will continue to provide us with general banking services in the ordinary course of our banking business. In 1998, Banco Popular provided bill collection services, lock-box, payroll and other cash management services pursuant to contracts with Puerto Rico Telephone Company for which Banco Popular received approximately \$2.8 million in 1998. GTE Holdings has agreed to use commercially reasonable efforts to cause us to use Banco Popular's general banking services.

We also entered into a \$200 million revolving credit facility with Banco Popular in connection with the acquisition, under which we have drawn \$26.1 million as of June 30, 1999.

82

&lt;PAGE&gt; 86

#### DESCRIPTION OF SOME OF OUR DEBT

##### OVERVIEW

On March 2, 1999 we entered into three credit facilities:

- a syndicated five-year revolving credit facility, with Citibank N.A., Bank of America National Trust and Savings Association, The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York and other lenders, for up to \$500,000,000, which we refer to as, the Five-Year Revolving Credit Facility;
- a syndicated 364-day revolving credit facility, with Citibank N.A., Bank of America National Trust and Savings Association, The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York and other lenders, for up to \$1,000,000,000, which we refer to as, the Capital Markets Bridge Facility; and
- a syndicated 364-day revolving credit facility, arranged by Banco Popular, for up to \$200,000,000, which we refer to as, the BPOP Revolving Credit Facility.

In connection with the closing of the acquisition, the Capital Markets Bridge Facility and the Five-Year Revolving Credit Facility were fully drawn for the purpose of funding the special dividend. In addition, a borrowing in the

amount of \$91.1 million was made under the BPOP Revolving Credit Facility to fund (i) the remaining portion of the special dividend, in the amount of \$65 million, and (ii) a loan from Telecomunicaciones de Puerto Rico to the employee stock ownership plan to finance the purchase by the employee stock ownership plan of 3% of the Shares.

#### FIVE-YEAR REVOLVING CREDIT FACILITY

##### PURPOSE

The Five-Year Revolving Credit Facility was established for general corporate purposes, including to finance the special dividend and related fees and expenses, working capital and to provide alternative credit support for the repayment of commercial paper notes we may issue in the future. The total amount of the borrowings provided for under the facility is \$500,000,000 and the facility has a maturity of five years from March 2, 1999. The facility was fully drawn on such date.

##### RANKING; GUARANTY

The Five-Year Revolving Credit Facility is a senior unsecured non-amortizing credit facility. We are the borrower, and Puerto Rico Telephone Company and Celulares Telefonica provide joint and several guaranties of our obligations.

##### PREPAYMENT

The Five-Year Revolving Credit Facility provides for prepayment at our option in a minimum aggregate amount of \$10,000,000.

##### INTEREST

We pay interest on borrowings under the Five-Year Revolving Credit Facility at a rate which is comprised of:

- a basic interest rate which, at our option, subject to some limitations, is either a Eurodollar rate, as quoted in the London interbank market, or a base rate which is the higher of either Citibank's publicly announced "base" rate or 1/2 of 1% above an overnight Federal funds rate; and
- if we choose to borrow at a Eurodollar rate, a margin determined according to our financial performance and the total amount of the credit under the facility that we use.

83

<PAGE> 87

We can choose an interest period for each borrowing at a Eurodollar rate which can be one, two, three or six months. The rate for the interest period is set two days before the beginning of the interest period. The base rate which may apply to borrowings may change daily.

The reference banks which quote the Eurodollar rates for our borrowings under this facility are Citibank, N.A., Bank of America National Trust and Savings Association, The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York.

We pay a margin on borrowings under the Five-Year Revolving Credit Facility for which we select a Eurodollar rate which varies from 0.200% if our financial performance is at its strongest, to 1.550% if our financial performance is at its weakest, and we have borrowed half or less than half of the total amount available under the facility. If we have borrowed more than half of the total amount available under the facility when we borrow or when a new interest period begins, then the margin ranges from 0.350% if our financial performance is at

its strongest, to 1.800% if our financial performance is at its weakest. Our financial performance is measured by our credit rating, with A- from S&P and A3 from Moody's being the highest for these purposes, and BB+ from S&P and Baa1 being the lowest. If no credit rating is available, then the margin is determined based on the ratio of our outstanding debt to EBITDA.

If we fail to make a payment when due under the Five-Year Credit Facility, then we pay interest on the outstanding loans at a rate of 2% above the base rate.

We also have the option of borrowing under the Five-Year Credit Facility at interest rates which we solicit from banks in the syndicate on a competitive bid basis.

#### FEES

We are also required to pay to each of the lenders in the Five-Year Revolving Credit Facility, on a quarterly basis, a facility fee equal to a specified percentage of such lender's commitment thereunder. Such percentage varies in accordance with our performance level, which is structured on the same scale as that described above for the interest rate determination.

#### COVENANTS

We, Puerto Rico Telephone Company and Celulares Telefonica are subject to certain affirmative and negative covenants contained in the Five-Year Revolving Credit Facility. The covenants among other things require us:

- to comply with laws;
- to pay taxes;
- to maintain insurance;
- to preserve our corporate existence;
- to maintain our properties;
- to engage in arm's-length transactions with our affiliates, subject to certain exceptions;
- to report several events; and
- to maintain several financial ratios under a determined level.

In addition, these covenants restrict our ability to:

- incur liens;
- merge, other than with a subsidiary of GTE Corporation;
- change our accounting methods; and,

84

<PAGE> 88

- incur debt, other than the credit facilities entered into on March 2, 1999 (and refinancings thereof), certain inter-company debt, operating leases, certain transactions in the ordinary course of business and other unsecured debt in the ordinary course of business aggregating for each of Puerto Rico Telephone Company and Celulares Telefonica not more than \$75 million at any one time outstanding.

#### EVENTS OF DEFAULT

Events of default under the Five-Year Revolving Credit Facility include:

- failure to pay any amounts due;
- any error in any material respect of any representation or warranty when made or deemed made;
- failure to perform any of certain specified covenants;
- breach of the guaranty by either Puerto Rico Telephone Company or Celulares Telefonica;
- cross-default or cross-acceleration to other debt outstanding in an aggregate principal amount of at least \$20 million;
- certain bankruptcy or insolvency events;
- judgments or orders rendered against us aggregating \$30 million, which are not covered by insurance or indemnification;
- certain specified failures of GTE Corporation to maintain direct or indirect control of Telecomunicaciones de Puerto Rico; and
- certain events under the Employee Retirement Income Security Act.

#### CAPITAL MARKETS BRIDGE FACILITY

##### PURPOSE

The Capital Markets Bridge Facility was established for the purpose of financing the special dividend. The total amount of the borrowings provided for under the facility is \$1,000,000,000 and the facility has a maturity of 364 days from the effective date thereof, which was March 2, 1999. The facility was fully drawn on such date.

##### PREPAYMENT

The Capital Markets Bridge Facility provided for mandatory prepayment out of the net proceeds of any long-term debt issued by us in the capital markets, and we prepaid it in full with the proceeds from the offering of the old notes.

#### BPOP REVOLVING CREDIT FACILITY

##### PURPOSE

The BPOP Revolving Credit Facility was established for working capital and general corporate purposes, including without limitation to finance a portion of the special dividend. The total amount of the borrowings provided for under the facility is \$200,000,000. The facility matures on March 1, 2000. Approximately \$91 million was drawn under the BPOP Revolving Credit Facility on March 2, 1999.

##### STATUS; GUARANTY

The BPOP Revolving Credit Facility is a senior unsecured non-amortizing credit facility. We are the borrower, and Puerto Rico Telephone Company and Celulares Telefonica provide joint and several guaranties of our obligations.

85

<PAGE> 89

##### PREPAYMENT

The BPOP Revolving Credit Facility provides for prepayment at our option of

revolving credit advances thereunder in a minimum aggregate amount of \$1,000,000.

#### INTEREST

Borrowings under the BPOP Revolving Credit Facility may be maintained from time to time, at our option as:

- Base rate loans which bear interest at the base rate, which is the simple average of the rates of interest announced publicly in the Wall Street Journal by the principal commercial banks in New York, New York as their prime commercial lending rates, or
- LIBOR rate loans bearing interest at the LIBOR, plus the applicable margin. The applicable margin for LIBOR rate loans is, for a utilization of less than or equal to 50% of the total commitments under the BPOP Revolving Credit Facility, 0.925% and for a utilization of greater than 50% of the total commitments 1.075%.

#### FEES

Commitment fees are payable by us to lenders under the BPOP Revolving Credit Facility on the daily average unused amount of each lender's commitment thereunder, on a quarterly basis.

#### COVENANTS

The covenants of Telecomunicaciones de Puerto Rico, Puerto Rico Telephone Company and Celulares Telefonica under the BPOP Revolving Credit Facility are substantially the same as those described above for the Five-Year Revolving Credit Facility. The BPOP Revolving Credit Facility contains an additional covenant that requires our significant subsidiaries to guarantee the BPOP Revolving Credit Facility.

#### EVENTS OF DEFAULT

Events of default under the BPOP Revolving Credit Facility are substantially the same as those described above for the Five-Year Revolving Credit Facility.

86

<PAGE> 90

#### DESCRIPTION OF EXCHANGE NOTES

##### GENERAL

We will issue the exchange notes in accordance with the terms of the indenture dated as of May 20, 1999 among us, the subsidiary guarantors and The Bank of New York, as trustee. The terms of the exchange notes include those stated in the indenture and those made part of the indenture by reference to the Trust indenture Act of 1939.

The following description is a summary of the material terms and provisions of the indenture. It does not purport to be complete or to restate that agreement in its entirety. We urge you to read the indenture and the registration rights agreement because they, and not this description, define your rights as holders of these exchange notes. The indenture and the registration rights agreement are incorporated by reference into this prospectus.

##### FORM

The exchange notes are to be issued in registered form only in

denominations of \$1,000 and integral multiples of \$1,000. The exchange notes will be initially issued in the form of Global Securities and will be exchangeable for exchange notes in certificate form only in the limited circumstances set forth below under "-- Book Entry System."

#### MATURITY, PRINCIPAL AND INTEREST

The exchange notes will have the following terms:

<TABLE>

<CAPTION>

SERIES	PRINCIPAL AMOUNT	INTEREST RATE	MATURI
<S>	<C>	<C>	<C>
2002 exchange notes.....	\$300,000,000	6.15%	May 15
2006 exchange notes.....	\$400,000,000	6.65%	May 15
2009 exchange notes.....	\$300,000,000	6.80%	May 15

</TABLE>

In each case, interest will be payable semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 1999. We will pay interest to those persons who were holders of record on the May 1 or November 1 immediately preceding each interest payment date.

Interest on the exchange notes will accrue from the date of original issuance of the old notes or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

#### RANKING

The exchange notes will be senior unsecured obligations of Telecomunicaciones de Puerto Rico, equal in ranking ("pari passu") with all of our existing and future senior debt, and senior in right of payment to all of our existing and future subordinated debt.

Each of Puerto Rico Telephone Company and Celulares Telefonica is currently a subsidiary guarantor. Holders of the exchange notes will only be creditors of Telecomunicaciones de Puerto Rico and of those subsidiaries that are subsidiary guarantors. The note holders, through Telecomunicaciones de Puerto Rico, would only have a stockholder's claim in the assets of its subsidiaries that were not subsidiary guarantors. This stockholder's claim is junior to the claims that creditors of our subsidiaries have against those subsidiaries. If in the future we have subsidiaries that are not subsidiary guarantors, all the existing and future liabilities of such subsidiaries, including any claims of trade creditors and preferred stockholders, will be effectively senior to the exchange notes.

We conduct all of our operations through our subsidiaries. Therefore, our ability to service our debt, including the exchange notes, is dependent upon the earnings of our subsidiaries, and their ability to distribute

87

<PAGE> 91

those earnings as dividends, loans or other payments to us. Certain laws restrict the ability of our subsidiaries to pay dividends or make loans and advances to us. If in the future we have subsidiaries that are not subsidiary guarantors and these restrictions apply to such subsidiaries, then we would not be able to use the earnings of those subsidiaries to make payments on the exchange notes. Furthermore, under certain circumstances, bankruptcy "fraudulent conveyance" laws or other similar laws could invalidate the Subsidiary Guaranties. If this were to occur, we would also be unable to use the earnings of these subsidiary guarantors to the extent they face restrictions on



distributing funds to us. Any of the situations described above could make it more difficult for us to service our debt.

#### SUBSIDIARY GUARANTIES

Our obligations under the indenture are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by the subsidiary guarantors to the extent that they guarantee our credit facilities.

Upon the sale or other disposition of a subsidiary guarantor permitted by the indenture, or the release or termination of all guarantees provided by a subsidiary guarantor under all credit facilities, such subsidiary guarantor will be released from all its obligations under its subsidiary guarantee.

We and each of the subsidiary guarantors will agree to contribute to any other subsidiary guarantor which makes payments pursuant to a subsidiary guarantee an amount equal to its proportionate share of such payment, based on its net worth relative to the aggregate net worth of Telecomunicaciones de Puerto Rico and the subsidiary guarantors.

#### OPTIONAL REDEMPTION

The 2006 exchange notes and the 2009 exchange notes will be redeemable, in whole or in part, at our option, at any time at a redemption price equal to the greater of (i) 100% of the principal amount of the exchange notes of such series and (ii) the sum of the present values, as determined by a Quotation Agent, of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis at the Adjusted Treasury Rate, plus:

- 15 basis points for the 2006 exchange notes
- 15 basis points for the 2009 exchange notes

In the event of any optional redemption accrued interest will be payable up to the redemption date.

"Adjusted Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by a Quotation Agent as having a maturity comparable to the remaining term of the 2006 exchange notes or the 2009 exchange notes, as the case may be, to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the applicable series of exchange notes.

"Comparable Treasury Price" means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the trustee obtains fewer than three such Reference Treasury Dealer Quotations, the average of all such Quotations.

"Quotation Agent" means the Reference Treasury Dealer appointed by us.

"Reference Treasury Dealer" means (i) Salomon Smith Barney Inc. and its respective successors; provided, however, that if the foregoing shall cease to be a primary U.S. Government securities dealer in New

&lt;PAGE&gt; 92

York City (a "Primary Treasury Dealer"), we shall substitute therefor another primary treasury dealer; and (iii) other primary treasury dealers, if any, selected by us.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the exchange notes or portions thereof called for redemption.

#### OPTIONAL TAX REDEMPTION

If, as a result of any change in or any amendment to the laws, regulations or rulings of Puerto Rico or taxing authority thereof or therein, or any change in the official administration, application or interpretation of such laws, regulations or rulings, which become effective on or after the issue date of the exchange notes, it is determined by us or by any subsidiary guarantor under or with respect to its Subsidiary Guarantee that we would be required to pay any additional amounts, as defined in the next subsection, pursuant to the indenture or the terms of the exchange notes of any series, or the terms of any subsidiary guarantee, in respect of interest on the next succeeding interest payment date, and that such obligation cannot be avoided by such obligor or successor by taking reasonable measures available to it, the applicable obligor may, at its option, redeem (or cause to be redeemed) all (but not less than all) of the exchange notes of such series upon not less than 30 nor more than 60 days' written notice as provided in the indenture, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest to the redemption date; provided, however, that (a) no such notice of redemption may be given earlier than 60 days prior to the earliest date on which such obligor or successor would be obligated to pay such additional amounts were a payment in respect of the exchange notes of such series then due, and (b) at the time any such redemption notice is given, such obligation to pay such additional amounts must remain in effect.

Prior to the publication of the notice of redemption in accordance with the foregoing, we will deliver to the trustee an Officers' Certificate (together with a copy of an independent opinion of counsel to the effect that the applicable obligor will be or will become obligated to pay additional amounts), stating that we are entitled to effect such redemption in accordance with the terms set forth in the indenture and setting forth a statement of facts showing that the conditions precedent to the right of redemption have been satisfied. Such notice, once delivered by us to the trustee, will be irrevocable.

#### ADDITIONAL AMOUNTS

All payments made by us under or with respect to the exchange notes or by any subsidiary guarantor under or with respect to our subsidiary guarantee, we and any such subsidiary guarantor being referred to for purposes of this section "additional amounts" individually as "obligor" and collectively as "obligors", shall be made free and clear of and without withholding or deduction for, or on account of any present or future taxes, levies, fees, duties, assessments or governmental charges of whatever nature imposed, levied, collected or assessed by or on behalf of, or within Puerto Rico, or any taxing authority thereof or therein, unless the applicable obligor or any successor, as the case may be, is

required to withhold or deduct taxes by law or by the interpretation or administration thereof. In that event, the applicable obligor or any successor, as the case may be, will (i) make any required withholding or deduction in respect of any taxes, (ii) remit the full amount deducted or withheld to the relevant taxing authority in accordance with applicable law, and (iii) pay such additional amounts as may be necessary so that the net amount received by each holder and beneficial owner of exchange notes after such withholding or deduction or other payment of taxes will not be less than the

89

&lt;PAGE&gt; 93

amounts that the holder and beneficial owner would have received if such taxes had not been withheld or deducted or paid, except that no additional amounts shall be so payable with respect to:

(1) taxes that would not have been imposed, payable or due but for the existence of any present or former connection between the holder, or between a fiduciary, settlor, beneficiary, member or shareholder, or possessor of a power over, such holder, if such holder is an estate, trust, partnership or corporation, and Puerto Rico other than the mere holding of the exchange notes;

(2) any taxes that are imposed or withheld after the Issue Date where such withholding or imposition is by reason of the failure of the holder or beneficial owner of the exchange note to comply with any reasonable request by the applicable obligor or any successor, as the case may be, to provide information concerning the nationality, residence or identity of such holder or beneficial owner or to make any declaration or similar claim or satisfy any information or reporting requirement (A) if such compliance is required or imposed by a statute, treaty, regulation or administrative practice of Puerto Rico as a precondition to exemption from all or part of such taxes, (B) such holder or beneficial owner may legally comply with such requirements and (C) at least 30 days prior to the date on which the applicable obligor or any successor, as the case may be, shall apply this clause (2), such obligor or successor shall have either notified the holders or notified the trustee and the trustee shall have notified the holders of such requirements;

(3) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge; or

(4) any combination of items (1), (2) and (3) above.

Such additional amounts shall also not be payable where, had the beneficial owner of the note been the holder of the note, it would not have been entitled to payment of additional amounts by reason of any of clauses (1), (2), (3) or (4) above.

The applicable obligor or any successor, as the case may be, will furnish to the trustee, upon written request, certified copies of tax receipts evidencing the payment of any taxes by such obligor or successor in such form as provided in the normal course by the Taxing Authority imposing such taxes and as is reasonably available to the obligor or successor, as the case may be, within 60 calendar days after the date of receipt of such evidence by such obligor or successor. If notwithstanding the obligor's or successor's, as the case may be, efforts to obtain such receipts, the same are not obtainable, such obligor or successor will provide to the trustee other evidence reasonably satisfactory to the trustee of such payments by such obligor or successor. Copies of such receipts will be made available to holders of exchange notes that are outstanding on the date of such withholding or deduction for or on account of taxes upon request to the trustee.

At least 30 days prior to each date on which any payment under or with

respect to the exchange notes is due and payable (unless such obligation to pay additional amounts arises after the 30th day prior to the date on which payment under or with respect to the exchange notes is due payable, in which case it shall be promptly thereafter), if the applicable obligor or successor, as the case may be, will be obligated to pay additional amounts with respect to such payment, such obligor or successor will deliver to the trustee an Officers' Certificate stating that such additional amounts will be payable and specifying the amounts so payable. The Officers' Certificate will also set forth such other information as is necessary to enable the trustee to pay such additional amounts to the holders of the exchange notes on the payment date.

The applicable obligor or successor, as the case may be, will pay any present or future stamp, issue, registration, value added, documentary taxes or any other similar taxes and other duties (including interest and penalties) payable in Puerto Rico (or any other jurisdiction in which the obligor or successor, as the case may be, is organized or engaged in business for tax purposes or, in each case, any political subdivision thereof or therein having the power to tax) in respect of the creation, issue, offering, execution or enforcement of the exchange notes, the subsidiary guarantee or any documentation relating thereto.

In the event that additional amounts actually paid with respect to any exchange notes are based on taxes in excess of the appropriate taxes applicable to the holder or beneficial owner of such exchange notes and, as a

90

&lt;PAGE&gt; 94

result thereof, such holder or beneficial owner is entitled to make a claim for a refund of such excess, or credit such excess against taxes then, to the extent it is able to do so without jeopardizing its entitlement to such refund or credit, such holder or beneficial owner shall, by accepting the exchange notes, be deemed to have assigned and transferred all right, title and interest to any claim for a refund or credit of such excess to the applicable obligor or Successor, as the case may be. By making such assignment and transfer, the holder or beneficial owner makes no representation or warranty that the applicable obligor or Successor, as the case may be, will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto (including executing or delivering any documents and paying any costs or expenses of the applicable obligor or Successor, as the case may be, relating to obtaining such refund). Nothing contained in this paragraph shall interfere with the right of each holder or beneficial owner of a note to claim any refund or credit or to disclose any information relating to its tax affairs or any computations in respect thereof or to do anything that would prejudice its ability to benefit from any other credits, relief, remissions or repayments to which it may be entitled.

Whenever in the indenture or in this "Description of Exchange Notes" there is mentioned, in any context, the payment of principal, interest, purchase price in connection with a purchase of the exchange notes or any other amount payable on or with respect to any of the exchange notes, such mention shall be deemed to include mention of the payment of additional amounts provided for in this section to the extent that, in such context, additional amounts are, were or would be payable in respect thereof.

The obligation described under this heading shall survive any defeasance of the indenture.

#### SINKING FUND AND DEFEASANCE

There will be no mandatory sinking fund payments for the exchange notes. The indenture provides that the exchange notes are subject to defeasance.

#### CERTAIN COVENANTS

The indenture limits our ability to take several actions:

1. In general, we are not permitted to incur any liens upon any of our property. We are permitted to incur liens of up to 10% of our consolidated net tangible assets or any other lien if the exchange notes are also secured by the lien. In addition, we are permitted to incur some additional liens, including liens:
  - on property we acquire or construct;
  - for taxes, assessments or governmental charges;
  - of a company that is merged into us; and
  - to secure capital lease obligations.
2. Our non-guarantor subsidiaries are generally prohibited from incurring any debt.

They can incur some debt, including debt:

- that does not exceed 10% of consolidated net tangible assets;
  - that existed at the time the company became our subsidiary;
  - pursuant to capital lease obligations; and
  - for a receivables financing so long as it does not exceed 15% of net tangible assets.
3. We are generally prohibited from entering into sale-leaseback transactions.

We can enter into some sale and leaseback transactions, including those:

- for financing property we acquire;
- existing at the time a company is merged into us;

91

<PAGE> 95

- which are refinancings of existing sale and leaseback transactions; and
- equal to the par value of the property sold and leased back so long as the proceeds are used to purchase property with the same value as that which was sold and leased back or is used to retire debt.

The indenture also requires our subsidiaries to guarantee the exchange notes to the extent they guarantee any of our credit facilities.

1. LIMITATION ON LIENS. The indenture limits our ability to, directly or indirectly, incur any Lien (other than Permitted Liens) upon any of our Property, including Capital Stock, unless:

(a) the exchange notes or the applicable Subsidiary Guaranty will also be secured by such Lien equally and ratably with (or prior to) all other Debt of Telecomunicaciones de Puerto Rico or any subsidiary guarantor secured by such Lien or

(b) immediately after the Incurrence or existence of such Lien, the aggregate principal amount of Secured Debt then outstanding plus the

aggregate amount of Capitalized Rent (without duplication) in respect of Sale and Leaseback Transactions would not exceed 10% of our Consolidated Net Tangible Assets.

2. LIMITATION ON DEBT OF NON-GUARANTOR SUBSIDIARIES. The indenture states that we shall not permit any Non-Guarantor Subsidiary to incur any Debt other than the following:

(a) Debt of such Non-Guarantor Subsidiary Incurred after the Issue Date; provided, however, that immediately after the Incurrence of such Debt the aggregate amount of Debt Incurred and outstanding pursuant to this clause (a) and not otherwise permitted pursuant to the indenture does not exceed 10% of Consolidated Net Tangible Assets;

(b) Debt of any Person existing at the time such Person becomes our Subsidiary, such Person is merged into or consolidated with the Company or a Subsidiary of the Company, or the Company or a Subsidiary of the Company acquires all or substantially all of the assets of such Person, other than Debt Incurred by such Person as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of transactions pursuant to which such Person becomes a Subsidiary of the Company, is merged into or consolidated with the Company or pursuant to which all or substantially all of the assets of such Person are acquired by the Company or a Subsidiary of the Company;

(c) Debt pursuant to Capitalized Lease Obligations; provided, however, that immediately after the Incurrence of such Debt, the aggregate amount of Debt Incurred and outstanding pursuant to this clause (c) and not otherwise permitted pursuant to the indenture, together with any Debt Incurred in respect of this clause (c) pursuant to clause (f) below, does not exceed 10% of Consolidated Net Tangible Assets;

(d) Debt owed to the Company or any Subsidiary of the Company;

(e) Debt of any such Non-Guarantor Subsidiary existing on the Issue Date;

(f) Debt of any Non-Guarantor Subsidiary constituting any Refinancing of any Debt Incurred pursuant to clauses (b), (c) and (e) above to the extent the aggregate principal amount of such Debt is not increased unless otherwise permitted hereunder; or

(g) Debt Incurred by a Receivables Subsidiary in a Permitted Receivables Financing that is non-recourse to the Company or any Subsidiary of the Company, except to a limited extent customary for such transactions.

For purposes of determining compliance with this "Limitation on Debt of Non-Guarantor Subsidiaries" covenant, (a) in the event that an item of Debt meets the criteria of more than one of the categories of Debt described above, the Company, in its sole discretion, will classify such item of Debt and will only be required

92

<PAGE> 96

to include the amount and type of such Debt in one of the above categories and (b) an item of Debt may be divided and classified in more than one of the types of Debt described above.

3. LIMITATION ON SALE AND LEASEBACK TRANSACTIONS. The Company shall not, and shall not permit any subsidiary guarantor to, enter into any Sale and Leaseback Transaction unless immediately after the completion of such Sale and Leaseback Transaction, giving effect to the application of the proceeds therefrom, the aggregate amount of Capitalized Rent in respect of Sale and

Leaseback Transactions, other than Sale and Leaseback Transactions described in clauses (a) to (d), inclusive, of the immediately succeeding paragraph, plus the aggregate principal amount of Secured Debt then outstanding, without duplication, would not exceed 10% of Consolidated Net Tangible Assets.

The foregoing restrictions shall not apply to, and there shall be excluded in computing the aggregate amount of Capitalized Rent for the purpose of such restrictions, the following Sale and Leaseback Transactions:

(a) any Sale and Leaseback Transaction entered into to finance the payment of all or any part of the purchase price of Property acquired or constructed by the Company or any subsidiary guarantor, including any improvements to existing Property, or entered into prior to, at the time of or within 270 days after the acquisition or construction of such Property, which Sale and Leaseback Transaction is entered into for the purpose of financing all or part of the purchase or construction price thereof; provided, however, that in the case of any such acquisition, such Sale and Leaseback Transaction shall not involve any Property transferred by the Company to a Subsidiary of the Company or by a Subsidiary of the Company to the Company or by a Subsidiary of the Company to another Subsidiary of the Company in contemplation of or in connection with such Sale and Leaseback Transaction or involve any Property of the Company or any subsidiary guarantor other than the Property so acquired, other than, in the case of construction or improvement, any theretofore unimproved real Property or portion thereof on which the Property so constructed, or the improvement, is located;

(b) any Sale and Leaseback Transaction involving Property of any Person existing at the time such Person is merged into or consolidated with the Company or a subsidiary guarantor or the Company or a subsidiary guarantor acquires all or substantially all of the assets of such entity (other than a Sale and Leaseback Transaction entered into by such Person as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of transactions pursuant to which such Person is merged into or consolidated with the Company or a subsidiary guarantor or pursuant to which all or substantially all assets of such Person are acquired by the Company or a subsidiary guarantor);

(c) any Sale and Leaseback Transaction involving the Refinancing (or successive Refinancings) in whole or in part of a lease pursuant to a Sale and Leaseback Transaction referred to in the foregoing clause (a) or (b); provided, however, that such lease Refinancing shall be limited to all or any part of the same Property leased under the lease so Refinanced (plus improvements to such Property); and

(d) any Sale and Leaseback Transaction the net proceeds of which are at least equal to the fair value (as determined by the Board of Directors of the Company or the applicable subsidiary guarantor) of the Property leased pursuant to such Sale and Leaseback Transaction, so long as within 270 days of the effective date of such Sale and Leaseback Transaction, the Company or the applicable subsidiary guarantor applies (or irrevocably commits to an escrow account for the purpose or purposes hereinafter mentioned) an amount equal to the net proceeds of such Sale and Leaseback Transaction to either (x) the purchase of other Property having a fair value at least equal to the fair value of the Property leased in such Sale and Leaseback Transaction and having a similar utility and function, or (y) the retirement or repayment (other than any mandatory retirement or repayment at maturity) of (i) the Notes, (ii) other Funded Debt of the Company or a subsidiary guarantor which ranks prior to or on a parity with the Notes or (iii) Debt of any Non-Guarantor Subsidiary maturing by its terms more than one year from its date of issuance (notwithstanding that any portion of such Debt is included in current liabilities) or preferred stock of any Non-Guarantor Subsidiary (other than any such Debt owed to or

preferred stock owned by the Company or any Subsidiary of the Company); provided, however, that in

93

<PAGE> 97

lieu of applying an amount equivalent to all or any part of such net proceeds to such retirement or repayment (or committing such an amount to an escrow account for such purpose), the Company may deliver to the trustee Outstanding Notes and thereby reduce the amount to be applied pursuant to (y) of this clause (d) by an amount equivalent to the aggregate principal amount of the Notes so delivered.

For purposes of determining compliance with this "Limitation on Sale and Leaseback Transactions" covenant, (i) in the event that a Sale and Leaseback Transaction meets the criteria of more than one of the categories of Sale and Leaseback Transactions described above, the Company, in its sole discretion, will classify such Sale and Leaseback Transaction and will only be required to include the Sale and Leaseback Transaction in one of the categories described above and (ii) a Sale and Leaseback Transaction may be divided and classified in more than one of the categories described above.

4. FUTURE SUBSIDIARY GUARANTORS. The Company shall cause each Subsidiary of the Company that becomes a guarantor or other similar obligor (which does not include being a direct borrower) under a Credit Facility following the Issue Date to execute and deliver to the trustee a Subsidiary Guarantee at the time such Person becomes a guarantor or other similar obligor under the Credit Facility such that such Subsidiary becomes a guarantor or other similar obligor of the Notes to the same extent as under the Credit Facility.

#### MERGER AND CONSOLIDATION

We may consolidate or amalgamate with or merge into any other Person or convey, transfer, lease or otherwise dispose of our Property substantially as an entirety to any Person or may permit any Person to consolidate or amalgamate with or merge into, or convey, transfer, lease or otherwise dispose of its Property substantially as an entirety to, us; provided, however, that:

- the successor, transferee or lessee, if other than us or the applicable subsidiary guarantor, is organized under the laws of any United States jurisdiction, including the Commonwealth of Puerto Rico;
- the successor, transferee or lessee, if other than us or the applicable subsidiary guarantor, expressly assumes the obligations of Telecomunicaciones de Puerto Rico or the applicable subsidiary guarantor, as the case may be, under the indenture and the exchange notes by means of a supplemental indenture entered into with the trustee;
- immediately before and after giving effect to the transaction on a pro forma basis, no Default shall have occurred and be continuing; and
- several other conditions are met.

#### SEC REPORTS

Notwithstanding that we may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, we will file with the Commission and provide the trustee and holders of the exchange notes with the annual reports and information, documents and other reports specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections. We will file such information, documents and reports at the times specified in the Exchange Act for their filing; provided, however, that we will



not be obligated to file such information, documents and reports with the Commission if the Commission does not permit such filings.

#### MODIFICATIONS OF INDENTURE

We, the subsidiary guarantors and the trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding exchange notes of a series, can modify the indenture or any supplemental

94

<PAGE> 98

indenture affecting such series of exchange notes or the rights of the holders of such series of exchange notes. However, we are not permitted to

- extend the fixed maturity of any exchange notes;
- reduce the principal amount or the interest rate of any exchange notes or extend the time of payment of interest thereon;
- reduce any premium payable upon the redemption of any exchange note;
- change the currency in which the principal of any exchange note or the interest thereon is payable;
- impair the right of any holder of exchange notes to receive payment of principal of and interest on the exchange notes on or after the fixed maturity or impair the right of any holder to institute suit for the enforcement of any such payment on or after the fixed maturity or, in the case of redemption, on or after the redemption date;
- change any Subsidiary Guaranty in any way that would adversely affect the holders of the exchange notes, other than as permitted by the indenture, without the consent of the holder of each exchange note so affected; or
- reduce the percentage of note holders of each series of exchange notes which is required to consent to any supplemental indenture or for any waiver of several provisions of the indenture, without the consent of each holder of exchange notes of such series then outstanding and affected by such change.

We, the subsidiary guarantors and the trustee may execute, without the consent of any holder of the exchange notes, any supplemental indenture for several other usual purposes.

#### EVENTS OF DEFAULT

The indenture provides that the occurrence of any of the following events with respect to any series of the exchange notes will constitute an "Event of Default" with respect to the exchange notes of such series:

- failure for 30 business days to pay interest on the exchange notes of such series when due;
- failure to pay principal or premium, if any, on the exchange notes of such series when due, whether at maturity, upon redemption, by declaration or otherwise;
- failure to observe or perform any other covenant in the indenture for 90 days after we have been given notice by the trustee or by the trustee by the holders of not less than 25% in principal amount of the outstanding exchange notes of such series, specifying the default and requiring that it be cured;

- acceleration of, or failure to pay at maturity after giving effect to any applicable grace period, any Debt of Telecomunicaciones de Puerto Rico or any of its Subsidiaries having an aggregate principal amount at the time in excess of the greater of \$25 million and the lesser of 1% of Consolidated Net Tangible Assets at such time and \$50 million, subject to several conditions;
- any Subsidiary Guarantee ceases to be in full force and effect, other than in accordance with the terms of the indenture or such Subsidiary Guarantee, or any subsidiary guarantor denies or disaffirms its obligations under its Subsidiary Guarantee; or
- certain events of bankruptcy, insolvency or reorganization.

The holders of a majority in aggregate outstanding principal amount of the exchange notes of a series have the right to direct the time, method and place of conducting any proceeding for any remedy in respect of such series available to the trustee for the exchange notes of such series.

Except in the case of an Event of Default involving bankruptcy, insolvency or reorganization, the trustee or the holders of not less than 25% in aggregate outstanding principal amount of the exchange notes of a series may declare the principal due and payable immediately upon the occurrence and during the continuance of an

95

&lt;PAGE&gt; 99

Event of Default with respect to the exchange notes of such series, but the holders of a majority in aggregate outstanding principal amount of the exchange notes of such series may rescind and annul such declaration and waive the default if the default has been cured and a sum sufficient to pay all matured installments of interest and principal and any premium has been deposited with the trustee. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization with respect to the Company shall occur, the aggregate outstanding principal amount of the Exchange notes of each series shall be due and payable immediately without any declaration or other act on the part of the trustee or the holders of the exchange notes.

The holders of a majority in aggregate outstanding principal amount of the exchange notes of a series may, on behalf of the holders of all the exchange notes of such series, waive any past Default in respect of such series, except a Default in the payment of principal, premium, if any, or interest or a Default in respect of any provision of the indenture, the amendment of which requires the consent of each holder of the exchange notes affected thereby. The Company is required to file annually with the trustee a certificate as to whether or not the Company is in compliance with all the conditions and covenants under the indenture.

#### THE TRUSTEE

The Bank of New York is the trustee for each series of exchange notes under the indenture.

In general, the trustee will perform only such duties as are specifically set forth in the indenture. However, during the existence of an Event of Default, the trustee will exercise the rights and powers vested in it under the indenture and use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

#### CERTAIN DEFINITIONS

"Board of Directors" means the Board of Directors of the Company or any

committee thereof duly authorized to act on behalf of such Board.

"Capital Stock" means and includes any and all shares, interests, participations or other equivalents (however designated) of ownership in a corporation or other Person.

"Capitalization" means with respect to a Person the total of (a) Funded Debt, (b) the par value or, in the case of Capital Stock with no par value, a value stated on the books, of all outstanding shares of Capital Stock, (c) the paid-in surplus and retained earnings or minus the net surplus deficit, as the case may be, (d) deferred taxes and deferred investment tax credits, (e) Capitalized Rent, and (f) minority interests in subsidiaries of such Person.

"Capitalized Lease Obligations" means any obligation under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP; and the amount of Debt represented by such obligation shall be the capitalized amount of such obligations determined in accordance with GAAP. For purposes of "-- Certain Covenants -- Limitation on Liens," a Capitalized Lease Obligation shall be deemed secured by a Lien on the Property being leased.

"Capitalized Rent" means the present value discounted semi-annually at a discount rate equal to the actual percentage rate inherent in the applicable lease, as determined in good faith by the Company of the total net amount of rent payable for the remaining term of any lease of Property by the Company or any subsidiary guarantor including any period for which such lease has been extended; provided, however, that no such rental obligation shall be deemed to be Capitalized Rent unless the lease resulted from a Sale and Leaseback Transaction. The total net amount of rent payable under any lease for any period shall be the total amount of the rent payable by the lessee with respect to such period but shall not include amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water rates, sewer rates and similar charges.

96

<PAGE> 100

"Consolidated Capitalization" means the Capitalization of the Company and its Subsidiaries determined on a consolidated basis at the end of the Company's then most recently reported fiscal year or quarter, as the case may be, including minority interests in Subsidiaries.

"Consolidated Net Tangible Assets" means the consolidated total assets of the Company and its Subsidiaries as reflected in the Company's most recent balance sheet prepared in accordance with GAAP, less (a) current liabilities excluding current maturities of long-term debt and obligations under capital leases and (b) goodwill, trademarks, patents and minority interests of others.

"Credit Facility" means, with respect to the Company or any Subsidiary of the Company, one or more debt or commercial paper facilities with banks or other institutional lenders, including the \$500,000,000 Five-Year Credit Agreement dated as of March 2, 1999, as amended, among the Company, the subsidiary guarantors and the lenders and agents named therein and the \$200,000,000 Credit Agreement dated as of March 2, 1999, as amended, among the Company, the subsidiary guarantors and the lenders and agents named therein providing for revolving credit loans, term loans, receivables or inventory financing, including through the sale of receivables or inventory to such lenders or to special purpose, bankruptcy remote entities formed to borrow from such lenders against such receivables or inventory or trade letters of credit, in each case together with any extensions, revisions, refinancings or replacements thereof by a lender or syndicate of lenders.

"Debt" means, with respect to any Person, the aggregate amount of, without duplication: (a) all obligations for borrowed money; (b) all obligations evidenced by debentures, notes or other similar instruments; (c) all obligations

to pay the deferred purchase price of property or services, except trade accounts payable, accrued commissions and other similar accrued current liabilities in respect of such obligations, in any case not more than 120 days overdue, arising in the ordinary course of business; (d) all Capitalized Lease Obligations of such Person, including Capitalized Rent; (e) all obligations or liabilities of others secured by a Lien on any Property owned by such Person whether or not such obligation or liability is assumed, the amount of such Debt being deemed to be the lesser of the value of such Property or the amount of the Debt so secured; (f) all reimbursement obligations of such Person in respect of any letters of credit or bankers' acceptances related to Debt of such Person or another Person; (g) any stock of such person that by its terms matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise; and (h) guarantees of or similar obligations with respect to Debt of other Persons. The term "Debt" shall not include any obligations of a Person under a Swap Contract.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Funded Debt" means any Debt maturing by its terms more than one year from its date of issuance, notwithstanding that any portion of such Debt is included in current liabilities.

"GAAP" means United States generally accepted accounting principles as in effect on the Issue Date, including those set forth:

(a) in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants,

(b) in the statements and pronouncements of the Financial Accounting Standards Board,

(c) in such other statements by such other entity as approved by a significant segment of the accounting profession, and

(d) the rules and regulations of the Commission governing the inclusion of financial statements, including pro forma financial statements in periodic reports required to be filed pursuant to Section 13 of the Exchange Act, including opinions and pronouncements in staff accounting bulletins and similar written statements from the accounting staff of the Commission.

"Incur" means, with respect to any Debt or other obligation of any Person, to create, issue, incur by merger, conversion, exchange or otherwise, extend, assume, guarantee or become liable in respect of such

97

<PAGE> 101

Debt or other obligation or the recording, as required pursuant to GAAP or otherwise, of any such Debt or obligation on the balance sheet of such Person. "Incurrence" and "Incurred" shall have meanings correlative to the foregoing; provided, however, that a change in GAAP that results in an obligation of such Person that exists at such time, and is not theretofore classified as Debt, becoming Debt shall not be deemed an Incurrence of such Debt.

"Issue Date" means the date on which the old notes were originally issued.

"Lien" means any mortgage, pledge, security interest, lien, charge or similar encumbrance.

"Non-Guarantor Subsidiary" means any Subsidiary of the Company other than a subsidiary guarantor.

"Officer" means the Chief Executive Officer, the President, the Chief Financial Officer, the Treasurer, any Vice President or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers of the Company, at least one of whom shall be the principal executive officer or principal financial officer of the Company, and delivered to the trustee.

"Outstanding" means, subject to certain exceptions, all Notes issued under the indenture, except those theretofore canceled by the trustee or delivered to it for cancellation, defeased in accordance with the indenture, paid in full, or in respect of which substitute Notes have been authenticated and delivered by the trustee.

"Permitted Liens" means:

(a) Liens existing on the Issue Date;

(b) Liens upon Property acquired or constructed by the Company or any subsidiary guarantor after the Issue Date to secure payment of all or part of the purchase price thereof or to secure Debt incurred prior to, at the time of or within 270 days after the acquisition or construction thereof for the purpose of financing all or part of the purchase or construction price thereof, or Liens of any kind existing on such Property at the time of the acquisition thereof, or conditional sales agreements or other title retention agreements with respect to any Property acquired after the Issue Date; provided, however, that in the case of any such acquisition, such Lien or agreement shall not involve any Property transferred by the Company to a Subsidiary of the Company or by a Subsidiary of the Company to the Company or by a Subsidiary of the Company to another Subsidiary of the Company in contemplation of or in connection with the Incurrence of such Lien or the entering into of such agreement; provided further, however, that no such Lien, and no such agreement, shall extend to or cover any other Property of the Company or any Subsidiary of the Company unless otherwise permitted hereunder;

(c) the Refinancing of any such Lien or of any such agreement, permitted by the foregoing clause (a) or (b), or the replacement or renewal, without increase in principal amount unless otherwise permitted hereunder, of the Debt secured thereby;

(d) Liens for taxes or assessments or governmental charges or levies; pledges or deposits to secure obligations under worker's compensation laws, unemployment insurance or similar legislation; pledges or deposits to secure performance in connection with bids, tenders, contracts, other than contracts for the payment of money or leases to which the Company or any subsidiary guarantor is a party; deposits to secure public or statutory obligations of the Company or any subsidiary guarantor; materialmen's, mechanics', carriers', workers', repairmen's, warehousemen's, suppliers', employees' or other like Liens in the ordinary course of business, or deposits to obtain the release of such Liens; deposits to secure surety and appeal bonds to which the Company or any subsidiary guarantor is a party; other pledges or deposits for similar purposes in the ordinary course of business; Liens created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; leases made, or existing on property acquired, in the ordinary course of business; landlord's Liens under leases to which the Company or any subsidiary guarantor is a party; zoning restrictions, easements, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not

materially impair the use of such property in the operation of the business of the Company or the applicable subsidiary guarantor or the value of such property for the purpose of such business; Liens arising solely by virtue of any statutory or common law provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit account or other funds; other Liens on the Property of the Company or any subsidiary guarantor incidental to the conduct of their respective businesses or the ownership of their respective properties which were not created in connection with the Incurrence of Debt or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of their respective properties or materially impair the use thereof in the operation of their respective businesses; or the Lien of the trustee described in the indenture;

(e) Liens with respect to Debt of any Person at the time such Person is merged into or consolidated with the Company or a subsidiary guarantor or the Company or a subsidiary guarantor acquires all or substantially all of the assets of such Person, other than a Lien Incurred by such Person as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of transactions pursuant to which such Person is merged into or consolidated with the Company or a subsidiary guarantor or pursuant to which all or substantially all of the assets of such Person are acquired by the Company or a subsidiary guarantor;

(f) Liens in favor of the Company or any subsidiary guarantor;

(g) Liens to secure Capitalized Lease Obligations; provided that (1) any such Lien does not extend or cover any Property other than the Property that is the subject of such Capitalized Lease Obligation (unless otherwise permitted hereunder) and (2) such Capitalized Lease Obligation is otherwise permitted under the indenture;

(h) Liens to secure obligations under Swap Contracts; and

(i) Liens Incurred in connection with any Permitted Receivables Financing.

"Permitted Receivables Financing" means any financing not exceeding in the aggregate, together with all other Permitted Receivables Financings Incurred pursuant to clause (g) of "-- Certain Covenants -- Limitation on Debt of Non-Guarantor Subsidiaries" or pursuant to clause (i) of the definition of "Permitted Liens," 15% of Consolidated Net Tangible Assets pursuant to which the Company or any Subsidiary of the Company may sell, convey or otherwise transfer to a Receivables Subsidiary or any other Person, in the case of transfer by a Receivables Subsidiary, or grant a security interest in, any accounts receivable, and related assets of the Company or such Subsidiary; provided, however, that (1) the covenants, events of default and other provisions applicable to such financing shall be customary for such transactions and shall be on market terms determined in good faith by the Board of Directors at the time such financing is entered into, (2) the interest rate applicable to such financing shall be a market interest rate determined in good faith by the Board of Directors at the time such financing is entered into and (3) such financing shall be non-recourse to the Company and its Subsidiaries, other than the Receivables Subsidiary except to a limited extent customary for such transactions. The grant of a security interest in any accounts receivable of the Company or any Subsidiary of the Company, other than a Receivables Subsidiary to secure Debt under any Credit Facility shall not be deemed a Permitted Receivables Financing.

"Person" mean any individual, corporation, partnership, company, including any limited liability company), joint venture, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Property" means, with respect to any Person, all types of real, personal, tangible, intangible or mixed property owned by such Person whether or not included in the most recent consolidated balance sheet of such Person and its Subsidiaries under GAAP.

"Receivables Subsidiary" means a bankruptcy-remote, special-purpose Wholly Owned Subsidiary formed in connection with a Permitted Receivables Financing.

99

&lt;PAGE&gt; 103

"Refinance" means to refinance, extend, renew, replace, refund, repay, prepay, repurchase, redeem, defease or retire once or successive times. In respect of any Debt, "Refinance" also means to issue other Debt, in exchange or replacement for, such Debt. "Refinanced" and "Refinancing" shall have correlative meanings.

"Sale and Leaseback Transaction" means any arrangement with any Person other than a Tax Consolidated Subsidiary providing for the leasing as lessee by the Company or any subsidiary guarantor of any Property except for temporary leases for a term, including any renewal thereof, of not more than three years provided that any such temporary lease may be for a term of up to five years if (a) the Board of Directors of the Company or the applicable subsidiary guarantor reasonably finds such term to be in the best interest of the Company or the applicable subsidiary guarantor and (b) the primary purpose of the transaction of which such lease is a part is not to provide funds to or financing for the Company, which Property has been or is to be sold or transferred by the Company (1) to any Subsidiary of the Company in contemplation of or in connection with such arrangement or (2) to such other Person. A "Tax Consolidated Subsidiary" means a subsidiary of the Company with which, at the time a Sale and Leaseback Transaction is entered into by the Company, the Company would be entitled to file a consolidated federal income tax return.

"Secured Debt" means Debt of the Company or any subsidiary guarantor secured by any Lien, other than Permitted Liens and Liens with which the Notes are secured in accordance with the covenant described under "-- Certain Covenants -- Limitation on Liens" on Property, including Capital Stock of the Company or such subsidiary guarantor.

"Subsidiary," in respect of any Person, means (i) any Person of which more than 50% of the total voting power of shares of Capital Stock entitled, without regard to the occurrence of any contingency to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more of the Subsidiaries of that Person or a combination thereof, and (ii) any partnership, joint venture or other Person in which such Person or one or more of the Subsidiaries of that Person or a combination thereof has the power to control by contract or otherwise the board of directors or equivalent governing body or otherwise controls such entity.

"Subsidiary Guarantee" means a guarantee on the terms set forth in the indenture by a subsidiary guarantor of the Company's obligations with respect to the Notes.

"Subsidiary Guarantor" means, unless released from their Subsidiary Guaranties as permitted by the indenture, Puerto Rico Telephone Company, Inc., Celulares Telefonica, Inc. and any Person that becomes a subsidiary guarantor pursuant to the covenant described under "-- Certain Covenants -- Future Subsidiary Guarantors."

"Swap Contract" means any agreement relating to any transaction that is a rate swap, basis swap, forward rate transaction, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option,

forward transaction, cap collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other similar transaction, including any option to enter into any of the foregoing or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing, provided that such Swap Contract was entered into for the purpose of managing risks associated with liabilities, commitments or assets of the Company or any Subsidiary of the Company and not for speculation, and provided further that to the extent the obligations under such Swap Contract are directly related to payment obligations on Debt, such Debt is otherwise permitted by the indenture.

"Voting Stock" of a corporation means all classes of Capital Stock of such corporation then outstanding and normally entitled, without regard to the occurrence of any contingency to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means, at any time, a Subsidiary all the Voting Stock of which, except directors' qualifying shares is at such time owned, directly or indirectly, by the Company and its other Wholly Owned Subsidiaries.

100

&lt;PAGE&gt; 104

## BOOK-ENTRY SYSTEM

The exchange notes will be initially issued in the form of one or more global securities registered in the name of The Depository Trust Company or its nominee.

Upon the issuance of a global security, The Depository Trust Company or its nominee will credit the accounts of persons holding through it with the respective principal amounts of the exchange notes represented by such global security purchased by such persons in the offering. Such accounts shall be designated by the initial purchasers. Ownership of beneficial interests in a global security will be limited to persons that have accounts with The Depository Trust Company ("participants") or persons that may hold interests through participants. Any person acquiring an interest in a global security through an offshore transaction in reliance on Regulation S of the Securities Act may hold such interest through Cedel or Euroclear. Ownership of beneficial interests in a global security will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by The Depository Trust Company and such participants. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a global security.

Payment of principal of and interest on exchange notes represented by a global security will be made in immediately available funds to The Depository Trust Company or its nominee, as the case may be, as the sole registered owner and the sole holder of the exchange notes represented thereby for all purposes under the indenture. Telecomunicaciones de Puerto Rico has been advised by The Depository Trust Company that upon receipt of any payment of principal of or interest on any global security, The Depository Trust Company will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal or face amount of such global security as shown on the records of The Depository Trust Company. Payments by participants to owners of beneficial interests in a global security held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in "street name" and will be the sole responsibility of such participants.

A global security may not be transferred except as a whole by The



Depository Trust Company or a nominee of The Depository Trust Company to a nominee of The Depository Trust Company or to The Depository Trust Company. A global security is exchangeable for certificated exchange notes only if:

- (a) The Depository Trust Company notifies the Company that it is unwilling or unable to continue as a depository for such global security or if at any time The Depository Trust Company ceases to be a clearing agency registered under the Exchange Act,
- (b) the Company in its discretion at any time determines not to have all the exchange notes represented by such global security, or
- (c) there shall have occurred and be continuing a default or an event of default with respect to the exchange notes represented by such global security.

Any global security that is exchangeable for certificated exchange notes pursuant to the preceding sentence will be exchanged for certificated exchange notes in authorized denominations and registered in such names as The Depository Trust Company or any successor depository holding such global security may direct. Subject to the foregoing, a global security is not exchangeable, except for a global security of like denomination to be registered in the name of The Depository Trust Company or any successor depository or its nominee. In the event that a global security becomes exchangeable for certificated exchange notes,

- (a) certificated exchange notes will be issued only in fully registered form in denominations of \$1,000 or integral multiples thereof,
- (b) payment of principal of, and premium, if any, and interest on, the certificated exchange notes will be payable, and the transfer of the certificated exchange notes will be registerable, at the office or agency of the Company maintained for such purposes, and
- (c) no service charge will be made for any registration of transfer or exchange of the certificated exchange notes, although the Company may require payment of a sum sufficient to cover any tax or governmental charge imposed in connection therewith.

101

<PAGE> 105

So long as The Depository Trust Company or any successor depository for a global security, or any nominee, is the registered owner of such global security, The Depository Trust Company or such successor depository or nominee, as the case may be, will be considered the sole owner or holder of the exchange notes represented by such global security for all purposes under the indenture and the exchange notes. Except as set forth above, owners of beneficial interests in a global security will not be entitled to have the exchange notes represented by such global security registered in their names, will not receive or be entitled to receive physical delivery of certificated exchange notes in definitive form and will not be considered to be the owners or holders of any exchange notes under such global security. Accordingly, each person owning a beneficial interest in a global security must rely on the procedures of The Depository Trust Company or any successor depository, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the indenture. Telecomunicaciones de Puerto Rico understands that under existing industry practices, in the event that the Company requests any action of holders or that an owner of a beneficial interest in a global security desires to give or take any action which a holder is entitled to give or take under the indenture, The Depository Trust Company or any successor depository would authorize the participants holding the relevant beneficial interest to give or take such